

PX18

Company Background

Telegram is an Internet and technology company that specializes in social media and messaging products and services. Launched in 2013, the Telegram mobile application today has over 200 million monthly active users and is one of the largest independent messaging platforms globally.

Telegram offers its users messaging, voice calls, photo and video sharing and online cloud storage. The company's services are available on iOS, Android, macOS, Windows and Linux under the name "Telegram Messenger".

Telegram Messenger has a widely distributed user base. Approximately 30% of its users are located in Europe (e.g., Germany, Spain and Italy); approximately 30% in Asia (e.g., Indonesia, India and Singapore); approximately 25% in Africa and Middle East (e.g., Saudi Arabia, Kenya and Iran); and approximately 15% in the Americas (e.g., Brazil, Canada and the United States).

The company employs software engineers, developers, system administrators and designers, which include winners of global programming contests, PhDs and leading industry experts. Telegram also pays contractors to provide support services such as creating digital stickers, reviewing spam reports and answering user questions.

Telegram is wholly owned by its founder and CEO, Pavel Durov, who is best known as the founder of VKontakte, the largest social network in Eastern Europe (see **Founders' Background**).

Telegram is headquartered in Dubai, UAE. As a global company with a global product offering, the Telegram Group also includes legal entities in the British Virgin Islands, Belize and the United Kingdom (see **Corporate Structure**).

The company's principal expenses are equipment and wages (see **Costs**). Telegram does not generate revenue at present. Instead, like many of its peers, it has chosen to prioritize growth and revenues follow in due course (see **Business Model**).

In the first half of 2018, Telegram conducted a \$1.7 billion private placement to 179 accredited investors (see **Private Placement**). Prior to the completion of the private placement, the company had been funded entirely by its founder.

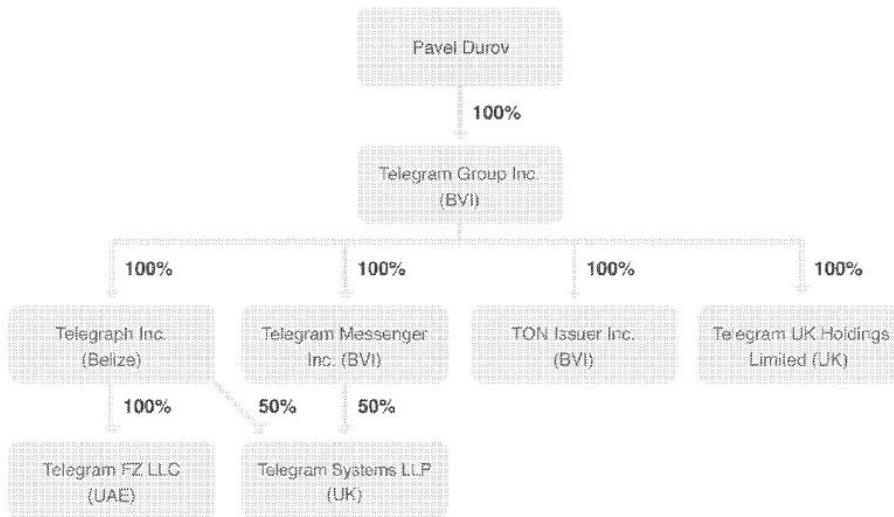
Founders' Background

Pavel Durov, the co-founder and CEO of Telegram, was born in St. Petersburg, Russia in 1984. In 2006 Pavel founded VKontakte, which under his leadership grew to become the most popular social network in Eastern Europe with over 100 million active monthly users. In 2014, Pavel sold his stake in VKontakte and left Russia to eventually establish his new permanent base in Dubai. Pavel used the proceeds from the VKontakte sale to further develop Telegram, first launched as an iOS app in August 2013.

Pavel has been selected as a Young Global Leader by the World Economic Forum (2017), and has been listed as one of the 40 most influential global businessmen by Fortune Magazine (2018). Pavel Durov was ranked as the most promising young Northern European leader by the Nordic Business Forum (2014).

Telegram was co-founded by Pavel's brother Nikolai Durov, a renowned mathematician and programmer who currently serves as the company's Chief Technology Officer. Nikolai twice won the world championship in programming among students (2000, 2001) and won gold medals in International Mathematical Olympiads. Nikolai has two PhDs in mathematics, from St. Petersburg State University (2005) and the University of Bonn (2007).

Corporate Structure



The parent company Telegram Group Inc. is the beneficial owner of all other Telegram companies and corporate assets. The sole owner of Telegram Group Inc. is Pavel Durov.

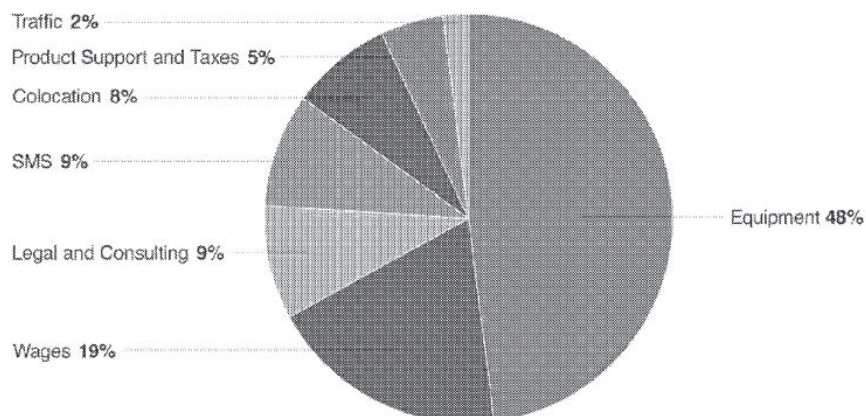
The headquarters of Telegram are located in Dubai, United Arab Emirates. Telegram FZ-LLC (UAE) leases its corporate offices in the emirate; and employs its core staff, developers and managers. Telegram UK Holdings (UK) is an entity that is the employer of the company's sole UK employee at present.

Telegraph Inc. (Belize), which is the shareholder of Telegram FZ-LLC, is the party to a limited number of agreements with individual contractors worldwide.

Telegram Messenger Inc. is an operating entity which owns the server equipment and enters into contracts with a small number of collocation, SMS and traffic providers. Telegram Systems LLP (UK) owns the company's intellectual property such as the global "Telegram" trademark and has two Limited Liability Partners: Telegraph Inc. and Telegram Messenger Inc.

TON Issuer Inc., along with the parent company Telegram Group Inc., entered into purchase agreements with investors in the course of the 2018 private placement (see **Private Placement**).

Costs



The largest share of the company's expenses are equipment costs (48%). Server colocation and traffic costs constitute another 8% and 2% of its total expenses, respectively. Investment in its own proprietary server, router and datacenter equipment allows the company to operate without relying on third-party cloud-hosting providers.

Employee salaries and bonus payments amount to 19% of the company's expenses. Telegram employs top global talent and ensures that employees' compensation is up to par with other industry leaders.

User verification costs (SMS) constitute 9% of expenses. SMS messages are required to verify the phone numbers of users signing up for Telegram. Over 600,000 new users sign up for Telegram's services every day.

Another 9% of expenses consist of legal and consultancy costs. Telegram and its founder have been committed to always engage the best-in-class professional advisers, and retains several Magic Circle and White-shoe law firms in the UK and U.S., as well as several of the Big Four audit and accounting firms, to ensure its corporate processes align with best practices.

The balance of Telegram's operating budget is attributable to product customer support. The latter includes payments to moderators who review and remove illegal content on the platform.

Business Model

Telegram does not generate revenue at present. There are no advertisements within the app, and Telegram does not sell or otherwise make available user data to third parties. Instead, the company focuses on investing in R&D and increasing its user base. As Telegram has grown as a social media platform, so has its market value for potential acquisition.¹

The company does not plan to develop sources of revenue in the next three years, but will continue leveraging its current capital to fund further growth. Thereafter, Telegram may consider an advertisement-driven monetization strategy in addition to other forms of monetization that the company is presently considering.

The financial activity of the company is limited to covering operational expenses as described in **Costs**. Despite its interest in blockchain technology, the company does not intend to perform any cryptocurrency-related transactions or hold cryptocurrencies on its balance sheets.

In 2018, Telegram conducted a private placement to further expand its user base and operations (see **Private Placement**)

¹ WhatsApp was sold to Facebook for \$19 billion, when it had roughly the same number of users worldwide as Telegram does today.

Private Placement

In 2018, Telegram raised \$1.7 billion in a global private placement. The private placement was executed in two rounds of \$850 million each: the Pre-Sale (81 investors total) and Stage A (98 investors total). All the funds raised were deposited into Telegram Group Inc. USD and euro bank accounts at Credit Suisse (Switzerland).

During the private placement, Telegram Group Inc. and TON Issuer Inc. entered into purchase agreements with a limited number of qualified and professional investors, including some of the most prestigious Venture Capital firms in the U.S. (Sequoia Capital, Benchmark, and Lightspeed). Similarly, Fortune 500 companies opted to participate in the private placement in their corporate capacity. Under the purchase agreements, investors paid U.S. dollars or euros in exchange for the right to receive a contractually agreed upon number of units related to the decentralized blockchain ecosystem (TON) developed by Telegram.

Telegram's private placement was conducted in accordance with Rule 506(c) of Regulation D and Regulation S under the U.S. Securities Act. Skadden acted as lead counsel for the private placement and continues to act for Telegram on an ongoing basis.² Local counsel was engaged in approximately 30 non-U.S. jurisdictions to advise on local securities law compliance, while investors from certain other jurisdictions (e.g., Japan, Philippines and "sanctioned jurisdictions") were excluded altogether.

As part of the private placement, Telegram conducted, through a third-party provider, an in-depth KYC check on each of the investors. The average investment was approximately \$10 million. The minimum and maximum investment sizes were \$1 million and \$90 million respectively.

Skadden worked with numerous regulatory agencies to ensure that the private placement was in compliance with all applicable laws and regulations, including securities, money transmission and anti-money laundering laws.³ Telegram proactively engaged with relevant regulatory agencies, including the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Financial Crimes Enforcement Network in the U.S.

² Skadden, Arps, Slate, Meagher & Flom has been consistently ranked "America's Best Corporate Law Firm" in *Corporate Board Member's* survey of public company directors every year since 2001.

³ Although Telegram's private placement is sometimes referred to as an initial coin offering ("ICO") in the media it stands in stark contrast to ICOs, which (1) are publicly advertised and allow retail investors to participate indiscriminately, (2) accept cryptocurrencies from investors, and (3) are conducted without regard to securities laws and other applicable regulations.

Policy Efforts

Since its founding, Telegram has been firmly committed to guaranteeing the privacy of its 200 million users. The standards and protocols that Telegram operates meet or exceed the rigorous data protection laws in Europe and globally; and in many cases. Telegram has been the industry leader in end-to-end encryption and was the first company to deploy this technology for millions of users worldwide (2013), followed by Google (2016) and Facebook (2016).

The company's core value of user privacy has not prevented Telegram from active engagement in policy efforts and technical solutions to combat abusive, violence-inducing and malicious content online. The Telegram Messenger Terms of Service explicitly prohibit calling for violence, publicly spreading pornography or spamming other users on the platform. Telegram processes requests to remove illegal public content from Telegram Messenger, including content that infringes on copyrights or appears to be related to terrorism, hate speech or child abuse, and routinely bans any bots,⁴ users and channels that promote illegal activity.

As a part of the company's longstanding commitment to anti-terrorism, Telegram engages in collaborative efforts with industry leaders, governments and policymakers worldwide by providing daily transparency reports, introducing automated content monitoring systems and adopting other industry-wide best practices. Telegram participates in anti-terrorist initiatives such as the Global IT Forum on Counter Terrorism and the Referral Action Day by Europol.

Telegram is fully committed to the principles of freedom of speech. A number of jurisdictions with a history of Internet censorship at times have chosen to limit their citizens' access to Telegram Messenger, but the company stands firm and promotes privacy and free expression globally.

⁴ Bots are special accounts designed to handle messages automatically.

Future Development

In 2019 and 2020, Telegram plans to scale its engineering and business development teams, and further expand product features related to communication and social networking. The planned features include conference voice and video calls that can accommodate up to 100 participants, and live video broadcasts to unlimited audiences.

To pursue its business and product development plans, the company projects the budget for 2019 at \$180 million and the budget for 2020 at \$220 million. As noted in **Business Model** above, the company does not generate revenue at present, or plan to do so in the foreseeable future; and will rely on its substantial financial resources to fund this growth plan for the next several years.

As the company has more than sufficient funds its needs in the near to medium term, Telegram is considering to broaden its existing banking relationships for the security and preservation of the company's capital.